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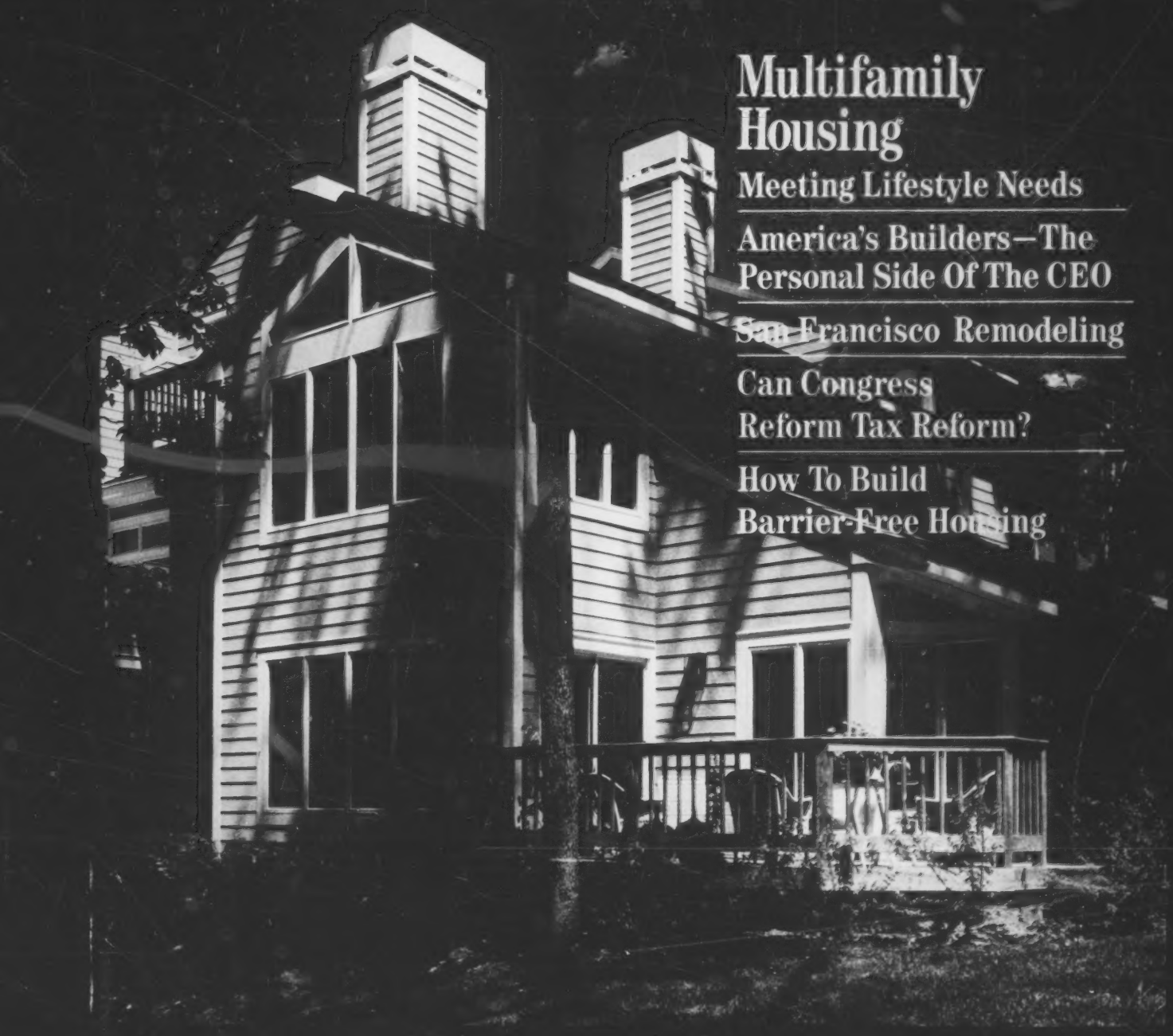
Professional Builder

A CAHNERS PUBLICATION
SEPTEMBER 1988



Multifamily Housing

Meeting Lifestyle Needs

America's Builders—The Personal Side Of The CEO

San Francisco Remodeling

Can Congress Reform Tax Reform?

How To Build Barrier-Free Housing

Professional Builder

SEPTEMBER • 1988 VOL. 53

THE MAGAZINE OF HOUSING AND LIGHT CONSTRUCTION/A CAHNERS PUBLICATION

Condominium ownership of housing holds appeal to certain home buyers. A look at attached housing, including Portofino, above. Page 116.

Profile of America's Builders, an exclusive survey, takes a look at the personal side of the chief executive and his operations. Page 132.

A gable, or spine, runs the length of this remodeled house and provides a transition from outdoors to indoors. Page 153.

FEATURES

Sell The Lifestyle Advantages Of Attached Housing 116

Security, low maintenance, community and recreational amenities are some of the selling points of attached housing. Condominium or fee-simple property ownership attract first-time owners as well as empty nesters and retirees. Multifamily builders are marrying the home to the site. For instance, Chicago-area townhouses nestle among trees and a pond. And Florida fourplexes wrap around a golf course. In all, builders sell the community.

Who Builds America? 132

Those who love to design and create things. Hard-working individuals who draw in other family members. An exclusive *Professional Builder* survey of builders reveals what they think of the building business, what they expect from their employees and how they spend their free time.

Smarter Housing For The Money 146

Small houses knock out the larger competition. McKellar Development is building houses from 1400 square feet and selling them at prices starting at $154,000. All of the 102 houses at The Horizons At Masters Hill in San Diego have a golf course view. The expense of grading was more than offset by the view premiums, which amounted to $500,000.

Remodeling Project Of The Month 153

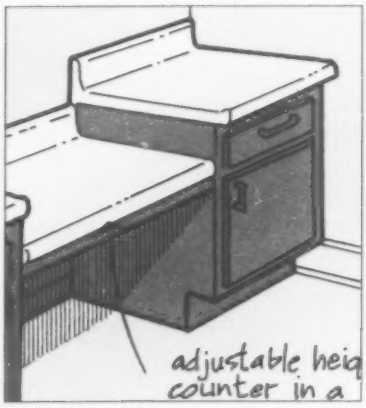
The house had a good plan, the remodeler admits. But the exterior was definitely dated. Eli Sutton, Mill Valley Calif., remodeled the exterior and enlarged nearly every room inside. He increased the house to 3397 square feet from 2432 square feet.

On The Cover

In Richmond, Va., the Woolfolk Cos. found a sloping, wooded site just 15 minutes from downtown. It built The Bluffs at Stony Point (more on pages 124 and 125) for empty nesters. Photo by Paul Everett.

Professional Builder

THE MAGAZINE OF HOUSING AND LIGHT CONSTRUCTION/A CAHNERS PUBLICATION



Adaptable design meets owners' changing physical needs. Page 79.

Can Congress reform the Tax Reform Act of 1986? Probably not, but still, expect some tinkering to be done. Page 22. **PB management changes** include new publisher, associate publisher and national sales manager. Page 32. **Boston's Joe Corcoran** runs a diverse company, building everything from rehabbed low-income housing to luxury resorts. Page 48. **St. Louis builders** participate in a grand Grand Opening. Page 67. **Computers in Chicago-area** sales office show buyers option costs. Page 72. **A correction** to the Ju executive compensation article appears on page 176.

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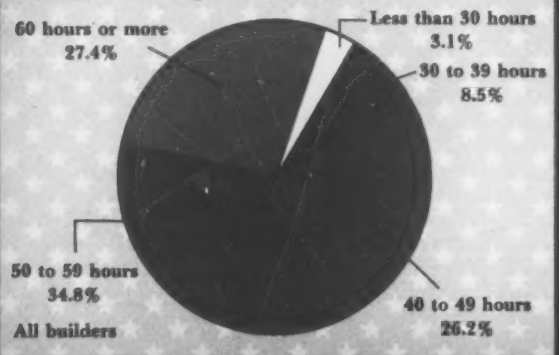
A PROFILE OF AMERICA'S BUILDERS

These are the men and women who account for roughly one-and-one-half million housing starts every year. An exclusive *Professional Builder* survey offers a glimpse of the private side of chief executive officers as well as a look at how they run their businesses.

Written by James Carper, Managing Editor

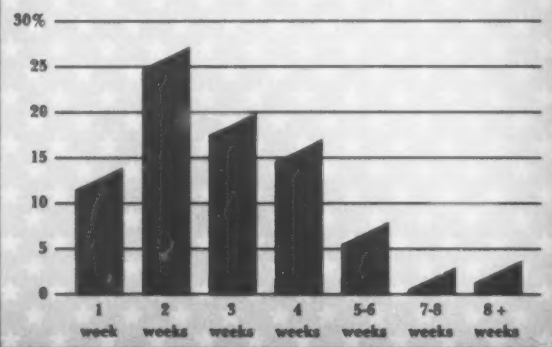
The Boss Puts In 53 Hours A Week...

Principal officers say they work an average of 52.5 hours a week. Owners of smaller firms (annual revenues of $1 to $5 million) work longest—58 hours a week.



...And Vacations 3 Weeks A Year

The boss took an average of 3 weeks off in 1987. Favorite vacation spots: 90% traveled within the U.S., 17% went to Europe, 13% to Mexico and 12% to Canada.



Demographics Of The CEO

48 years old with 15 years in the business

This summer, PB's research affiliate, the Bureau of Building Marketing Research, conducted a confidential survey of 170 principal officers of the nation's building companies.

The results, summarized here and on the following pages, reveal a portrait of a no-nonsense chief executive who has enormous pride in his or her company and would like employees to have a stronger commitment to the company.

Building company presidents have been in the business an average of 15 years. Average age of the CEO is 48.

Today's chief officer is converting a new generation to the rewards (and tensions) of home building. Nearly 45 percent say their children are active in the company. Yet just 32 percent of today's CEOs said other family members preceded them in the building business.

More than half (59.5 percent) of all principal officers are college graduates and have done some post-graduate work. And an additional 27.6 percent have some college coursework, though they did not graduate.

Now faced with the rigors and realities of home building, 33.8 percent admit they wished they had studied more accounting and finance while in college.

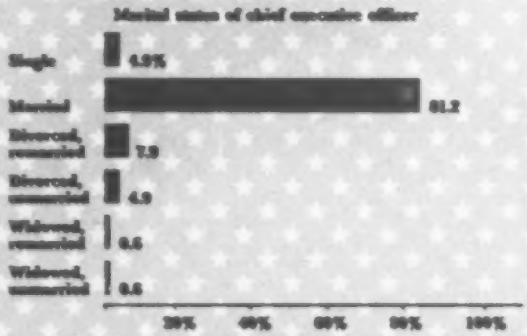
Those surveyed rarely sit still. More than half visit building projects in other geographic markets at least one to three times a year. They make an average of 4.2 trips (and a median of three trips) a year.

CEOs of large building businesses (annual revenues of more than $15 million) make the most trips—an average of 6.3 a year.

In their free time, principal officers enjoy traveling (41 percent) and sports—both as spectators and as active participants. Nearly 40 percent play golf, 36 percent swim, 33 percent go boating and 28 percent snow ski.

Builders Are Married...

Slightly more than 81% of builders are married. Nearly 8% have been divorced but have remarried; 5% are divorced and unmarried; 5% are single.

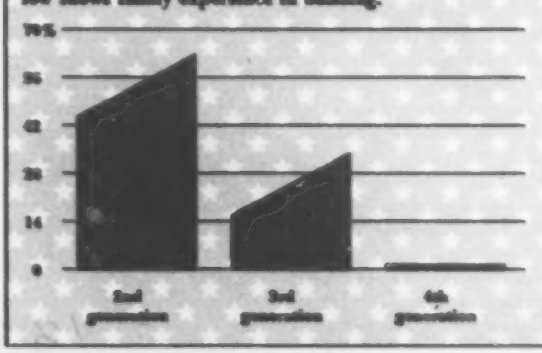


...With An Average Of 2.5 Children

Owners of smallest firms—annual revenues of less than $1 million—have 2.7 children, slightly more than the average for all builders.

Two-Thirds Of CEOs Are First-Generation Builders

But the smaller the firm, the more likely it is that the chief executive officer is following a tradition. Chart below shows family experience in building.



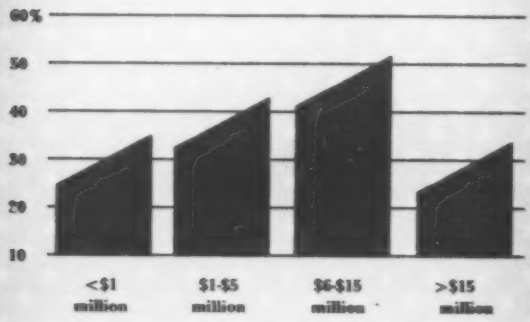
The Boss Has 15 Years Experience

Larger building companies have the more seasoned presidents. Median tenure is 18 years at largest firms, compared to 15 years for firms of all sizes.

	Annual revenues (millions)			
Years in building business	< $1	$1-$5	$6-$15	>$15
Less than 1 year	5.0%	—%	—%	—%
1 to 5 years	10.0	8.7	—	3.5
6 to 10 years	35.0	30.4	38.1	20.7
11 to 20 years	30.0	26.1	47.9	31.0
More than 20 years	20.0	34.8	19.1	44.8

The Boss Went To College...

Bars show college graduates by company size. Within all firms surveyed, 27.6% have some college training, 36.8% graduated and 22.7% continued post-grad studies.



...Majored In Business...

Principal officers—regardless of company size—chose business as their college major. Table shows major area of education.

Subject	All builders
Construction management	16.5%
Business	44.4
Liberal arts	15.0
Law	3.0
Engineering	12.8
Architecture	5.3
Science	1.5
Other	1.5

...But Wishes He'd Studied More Finance

With experience running a building company, the principal officer now wishes he had studied more finance and accounting in college.

Wishes had studied more	All builders
Accounting, finance	33.8%
Engineering	15.2
Data processing	13.1
Architecture and design	11.7
Construction management	9.7
Labor relations	1.4
Other	27.6
No subject could help	9.0

Motivations Of The CEO

Rich rewards for those who like to create

The chief executive officer became a builder because he or she likes to design and create things, said 38.1 percent of those surveyed. And 27.2 percent saw home building as a good way to make money.

They were right. Home building pays rich rewards. Median base salary in 1987 of those surveyed was $99,000 (average was $129,700). On top of salary, CEOs earned a median bonus of $42,000 (average of $53,500).

Salary ranges from a median of $56,000 (for heads of companies with less than $1 million annual revenues) to $130,000 (for heads of companies with revenues of more than $15 million).

In addition to salary, almost half (48.2 percent) of all builders surveyed earn a straight bonus based on volume. And a like amount enjoy a company car or limousine service.

Like Walter Mitty, some builders confess to a secret fantasy life. Twenty percent admit that they would like to be millionaires. For most, that dream nearly has been realized. Median value of the CEO's personal investments totals $999,000—just shy of a million.

Principal officers live in houses with a median value of $249,000 (average of $315,100). Those who run the largest firms live in the most expensive houses. CEOs of companies with revenues of more than $15 million live in $350,000 houses (average of $369,700).

What skill or talent is most important to the chief executive officer? Business management abilities, say 33.1 percent, ranks first. Principal officers also say they must be skillful managers of people and that they must have construction or technical knowledge. Though they do wish they had studied more accounting and finance while in college, few CEOs say that financial wizardry is important in their position.

Builders Love To Build

They like to design and create things. That's the reason why many principal officers say they got into the business. Yet they are pragmatists. Home building is a good way to make money, they admit.

Reasons for being a builder	All Builders
I like to design and create things	38.1%
It's a good way to make money	27.2
Building is one of the last areas of entrepreneurial enterprise	21.8
I didn't plan on building, I simply drifted into it	19.1
It was the family business	18.4
I like to build things, work with my hands	15.0
I had formal construction-school training	5.4
It's a living	2.7

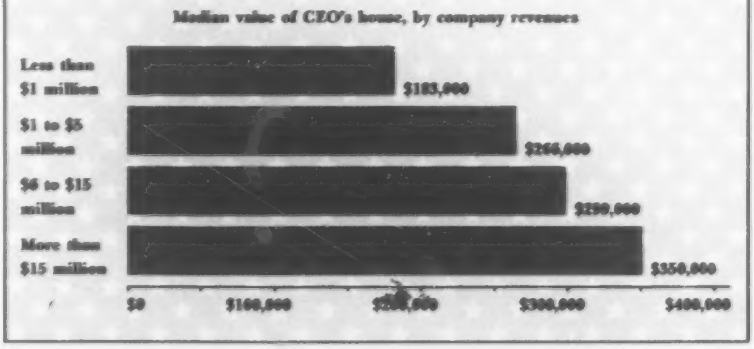
Top Skills Are Business, People Management

Principal officers say most important skill or talent is their business management ability. Knowing how to manage people comes next. Yet responses vary, depending on how large a company the CEO is running.

		Annual revenues (millions)			
Skills	All builders	<$1	$1-$5	$6-$15	>15
Business management ability	33.1%	31.6%	28.6%	52.9%	29.6%
People management	26.9	31.6	28.6	17.7	25.9
Construction/technical knowledge	22.1	31.6	9.5	5.9	14.8
Knack for making good land deals	19.3	5.3	9.5	11.8	18.5
Spot market trends	17.2	5.3	28.6	11.8	40.7
Design ability	14.5	10.5	19.1	5.9	14.8
Scheduling/production know-how	13.8	26.3	9.5	5.9	18.5
Marketing savvy	7.6	5.3	14.3	5.9	14.8
Financial wizardry	5.5	—	4.8	5.9	11.1

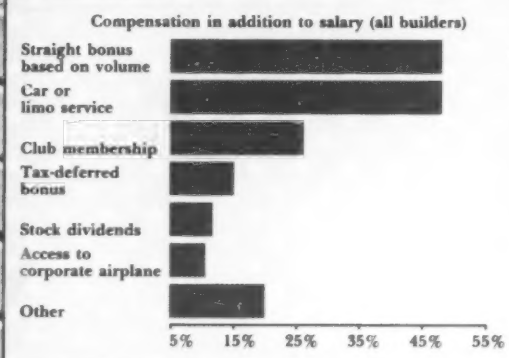
The Boss Owns A Quarter-Million-Dollar House

Median value of the principal officer's primary home is $249,000; average value is $315,100. Those who build custom homes say median value of their own house is $270,000; average of $324,900.



Perks And Bonuses Of The Chief Officer

Principal officers at the larger firms are more likely to receive perquisites and bonuses than are their colleagues at smaller firms.



Salary And Bonus Of The Boss Was $141,000 In 1987

Among all principal officers, their median salary was $99,000; median bonus was $42,000. Not surprisingly, those who run large building companies earn more than those who run the smaller firms.

Annual company revenues	Median salary	Median bonus	Total
Less than $1 million	$56,000	$13,000	$69,000
$1 to $5 million	85,000	24,000	109,000
$6 to $15 million	122,000	62,000	184,000
More than $15 million	130,000	49,000	179,000

The Boss Is Practically A Millionaire

Add up the value of the principal officer's personal investments, including property held for investment, stocks, bonds and other, and the median value is $999,000.

Annual revenues of:	Median value of all investments
Less than $1 million	$199,000
$1 to $5 million	825,000
$6 to $15 million	1,050,000
More than $15 million	1,090,000
All builders	999,000

Inside Company Headquarters

What the boss wants from his employees

Builders can handle the competition. Not one chief executive officer said the competition is a source of anger. And few builders said unions, consumerists and employees make them angry.

What really frosts the boss is dishonesty. Almost 53 percent said that is what makes them most angry on the job.

Though bosses get along well with their employees, chief executives would like them to have a stronger commitment to the job and company. But by and large, the boss must be keeping the employees happy. Only 16 percent of CEOs say they want less complaining and more cooperation.

Bosses have to expect the most from their employees—afterall, building companies have a median of just 10 full-timers. Most builders keep general laborers on their payroll. Other employees on the payroll, by job title, are: finish carpenters (37.6 percent), architect/designers (31.2 percent) and rough carpenters (24.8 percent). Builders subcontract an average of 75 percent of their work.

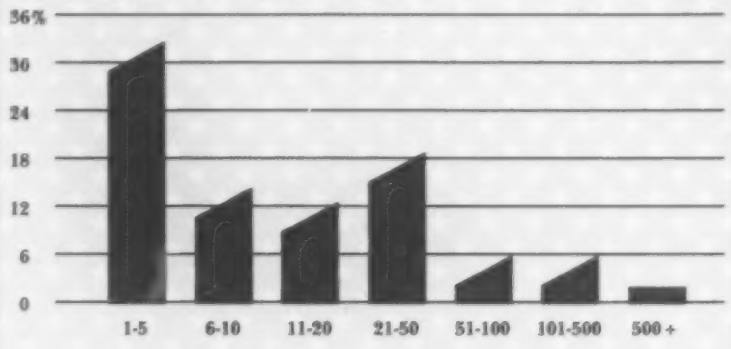
Builders also turn to outside sources to accomplish certain other tasks. For example, 46.5 percent rely on architects for house plans, 30.8 percent turn to designers and 29 percent to magazines or planbooks.

More than 80 percent of builders surveyed use computers for at least one function. CEOs use their computers for: general ledger (69.1 percent); job-cost accounting (65.1 percent); accounts payable (61.8 percent); and tracking operating costs (61.2 percent).

Small building companies (annual revenues of less than $1 million) have the fewest full-time employees—three—but perhaps could benefit most from using computers. Almost 60 percent of these small firms do not use computers for any function.

It's You And 9 Employees

Typical building company has median of 10 fulltime employees (chart). Those who build custom houses have median of 5 employees.



Builders Turn to Architects For Designs

Table shows where all builders find their plans. Small-volume builders of single-family houses are most likely to turn to magazines and plan books for housing designs.

Source	Single-family	Multifamily	Non-res buildings
Designer	30.8%	14.3%	20.7%
Design by architects	46.5	71.4	72.4
Builder publications	14.5	1.6	—
Plan books	14.5	3.2	—
Other builders	8.8	1.6	3.5
Use own designs	37.1	22.2	24.1

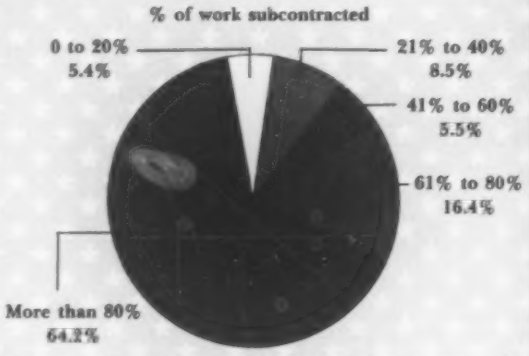
Benefits Keep Employees Healthy, Wealthy

Medical insurance is top benefit for builders' key employees. Profit sharing, to a lesser extent, is popular, too. Just one builder in the survey said that key employees receive all benefits listed.

Medical insurance	90.4%	Pension plan	26.9%
Life insurance	46.9	Education reimbursement	22.8
Performance bonus	46.2	Tax-deferred plan	9.7
Company car	45.5	IRA	6.2
Dental insurance	42.1	Thrift plan	1.4
Profit sharing	40.7	Legal services plan	1.4
Disability insurance	40	All of the above	0.7

Where's The Union Label?

Just more than 77% of builders say they employ non-union labor, 18.7% use both union and non-union labor and 3.9% employ union members only.



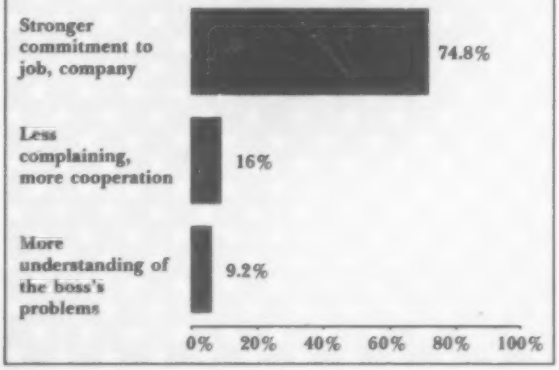
What Makes The Blood Boil?

Dishonest employees make the boss most angry on the job. Government bureaucrats and bad service don't lower blood pressure, either.

Dishonesty	52.7%	Regulations	19.2%
Bad service	35.6	Bureaucrat	30.8
Negative thinkers	25.3	Taxes	7.5
Politicians	15.1	Employees	2.1
Unions	8.2	Federal budget	6.2
Consumers	3.4	Corruption	6.9
Environmentalists	11.6	Competition	0

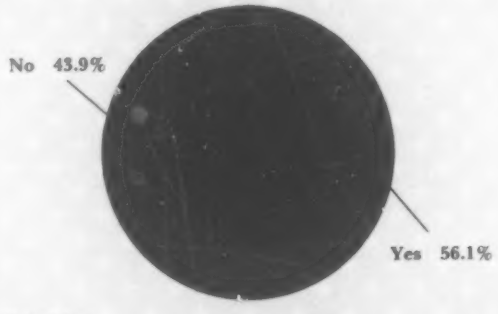
Get On The Boss's Good Side

What does the boss want from his employees? Three-fourths would like a stronger commitment to the job and to the company.



Say Yes To Politicians

More than half find it necessary for business purposes to contribute to local political campaigns, as pie shows. Among large builders, 82% say yes.



All builders

Demographics Of The Business

Selling to families in the suburbs

It's not difficult to find the typical U.S. home builder. He or she is building suburbia—45.7 percent are toiling in the outer fringe of the suburbs, 20.4 percent are in the inner fringe.

Principal officers in this survey built a median of 67 houses last year—half built more, half built fewer. Median price of these houses was $112,000. (Average price of houses built by survey respondents was $132,700; average new-home price in United States, as reported by Commerce Department, was $127,200.)

Families are the eager buyers of builders' output. Almost 40 percent of builders' sales were to families with young children, 16 percent were to families with teenagers.

Home buyers are making a good investment. Five years ago, the median price of a builder's product was $81,000. Today, that same house is selling for $117,000—a 44 percent rate of return over just half a decade. No wonder they are eager buyers.

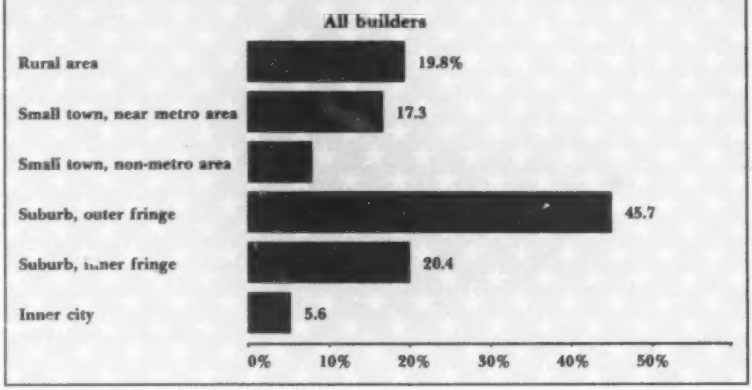
Some CEOs sell the house themselves. But most turn over that task to an in-house sales staff (46.9 percent) or to real estate brokers (44.8 percent).

Builders use model homes to help them sell—72.4 percent of all builders sell from models, but only 36.8 percent of small builder do (annual revenues less than $1 million). As annual revenues increase, so does the likelihood that the builder maintains a model house.

Of those who do sell from models, 65.5 percent furnish the home, 17.3 percent furnish only some of it and 17.3 percent do not furnish the model at all.

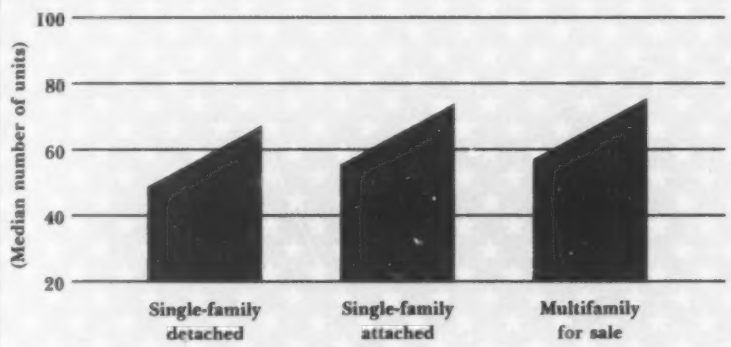
Growth Moves Further Out

Compared to last survey in 1984, more builders now report building primarly in the outer fringes of suburban areas. And that's where most large builders are now active.



67 Houses A Year...

That's the median number of single-family, for-sale units built and sold in 1987 (half built more, half built fewer). Diversified builders also build multifamily for-sale and rental units, or non-residential buildings, plus remodeling.



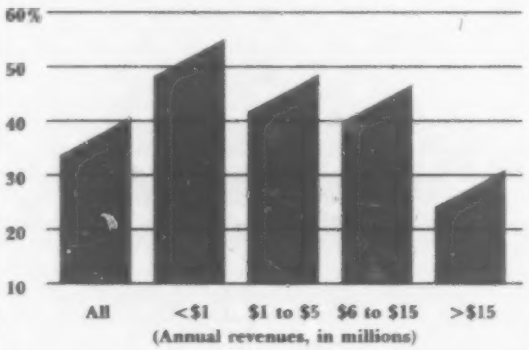
...At $112,000 A House

Average price of a newly built house in this survey is $132,700. That is up 40% from last survey conducted in 1984. Median price in 1984 was $82,400, a 36% difference in four years.

Type of housing	Median sales price	Average sales price
Single-family, detached	$112,000	$132,700
Single-family, attached	94,000	111,100
Multifamily, for sale	94,000	111,300
Rental apartments	487 (monthly rent)	508 (rent)

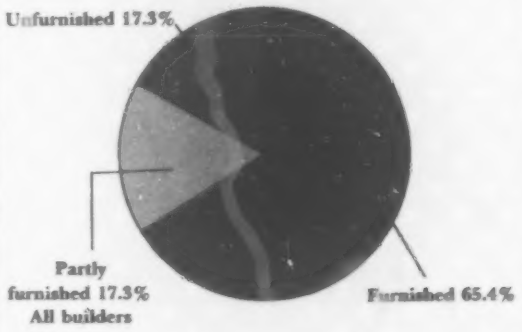
Do You Build Custom Houses?

Small-volume home builders are most likely to build custom houses (chart). Among all respondents, 20% (median value) of houses they build are custom.



Hey, Look Me Over

More than 72% of builders surveyed do sell from model houses. Most large builders feel they can't sell without a model. Small firms don't build models.



Family Market Is Builders' Bread And Butter

Builders sell more than half their housing to families with young children (39.4%) and to families with teens (16%). Remember the 'swinging singles' market of the 1960s? Today, singles account for 8.9% of new-home sales.

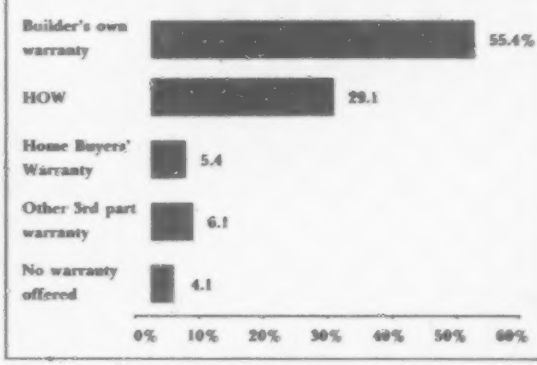
Markets	All builders	Annual revenues (millions) <$1	$1-$5	$6-$15	>$15
Singles	8.9%	2.6%	9.3%	19.2%	9.0%
Married, no children	16.6	15.4	19.0	16.0	15.7
Families, young children	39.4	57.3	41.3	37.9	33.5
Families, teens	16.0	8.9	13.5	12.3	21.5
Empty nesters	10.9	9.0	12.3	11.2	8.2
Retirees	7.9	6.5	4.4	3.2	11.8

Builders Let The Pros Sell

Small builders tend to sell their housing by themselves. But among all builders, in-house sales staff or brokers are used most often (chart).

You're There After The Sale

Ninety-six percent of builders offer a warranty on the single-family houses that they sell. Most offer their own warranty.

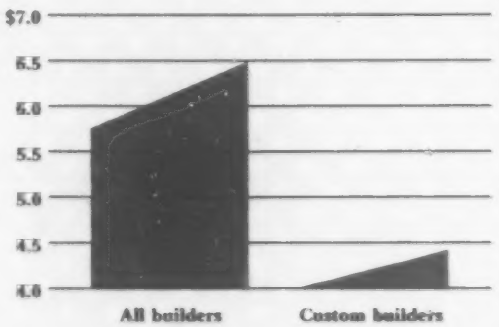


Sources Of Annual Revenues

Housing, remodeling, non-res—it all adds up

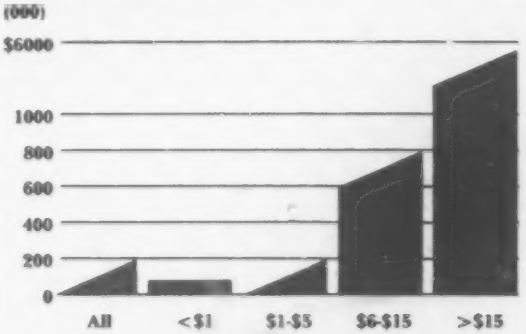
Total Revenues Of $6.5 Million...

Median, gross operating volume from all building in 1987 was $6.5 million among all builders surveyed (average annual volume of $114.8 million).



...$200,000 From Just Remodeling

Median gross operating volume from remodeling activity was $200,000 in 1987. Builders of every size undertake some kind of remodeling job.



Builders earn their revenues from a variety of construction sources: detached and attached housing, remodeling and non-residential building.

Median gross operating revenues in 1987 were $6.5 million. For the smallest firms, median annual revenues were $580,000. For the largest firms, median revenues were $32 million.

Non-residential building added a median of $2.11 million to a builder's gross operating revenues. Office buildings were the non-res structure of choice for 48.2 percent of builders. They also completed shopping centers (27.8 percent) and warehouses (20.4 percent) in 1987.

On site, CEOs report using the same methods of construction that their forebears did—65.2 percent say their housing is all stick built. Almost 30 percent say their buildings are partly stick built with some components.

In the sales office, consumer financing also is rooted deeply in tradition. The conventional 30-year mortgage is far and away the most commonly used financing vehicle, followed by FHA-insured and VA-guaranteed mortgages. One relatively recent financing innovation—the adjustable-rate mortgage—is used by 33.6 percent of home buyers.

To finance their own construction, builders tend to turn to banks for construction loans and to savings and loans for permanent financing.

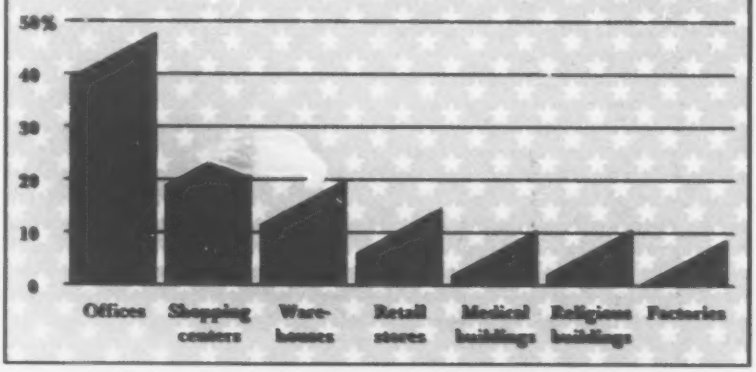
Where The Housing Dollars Come From...

Those surveyed build single-family and multifamily for-sale housing as well as rental housing. Chart shows how respondents earned their housing revenues in 1987. (Not all builders were active in every type of construction.)

Housing	Median value
Single-family detached	$4,800,000
Single-family, attached	4,500,000
Multifamily, for sale	5,000,000
Apartments for investors	2,200,000
Apartments for own investment	10,000,000

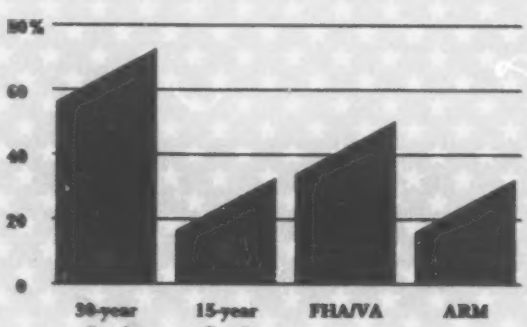
...And Where Non-Res Dollars Come From

Construction of non-residential buildings contributed median of $2,110,000 to a builder's 1987 gross operating revenues. Popular non-res buildings are shown below.



How Consumers Finance Homes...

The good-old 30-year fixed-rate conventional mortgage is top financing choice, builders report. But one-third of new homes are financed with adjustables.



...And How Builders Finance Properties

By and large, banks provide builders with construction financing for their income and for-sale properties. S&Ls come in with the permanent financing.

Lender	Income properties		For-sale properties	
	Construction	Permanent	Construction	Permanent
Savings & loan	40.5%	32.9%	46.9%	39.0%
Bank	44.1	48.5	45.8	42.5
Insurance company	4.5	2.9	1.6	3.8
Mortgage banker	11.2	36.1	11.1	46.2
Joint venture	5.6	2.8	6.6	0.9
Syndication	2.3	1.4	2.6	0.9

The Business Of Building

10 months to zone land, 5 months to build

If you plan to build a house now—in September 1988—you can probably deliver it in November 1989—15 months down the road. Think about that.

CEOs say it takes 10 months (median time) to take a parcel of land and have it zoned or rezoned for single-family construction. Then, it takes five months (median) for the actual construction of this house. And what do builders receive for this delayed gratification? About $10,750 a house (an average 8.1 percent profit on the average $132,700 house).

Most builders tend to develop their own lots. Others are "on your lot" builders or buy odd lots (chart).

Land is on the minds of many of the CEOs surveyed. Increasing land costs and finding good, well-located land are the two most troublesome problems. And don't expect the situation to improve. Builders expect land availability to be among the top issues facing the industry in the next 10 years. Only government regulations are more important, builders say.

Land pops up in discussions of trends in new homes. CEOs see a trend to smaller lots and higher densities. Yet they also see larger houses. (That reflects a trend seen in other PB surveys—namely, home buyers will give up a large yard in return for more house.) □

Start House Today, Finish In 5 Months

Builders need median time of 5 months for the actual construction of a single-family house. Average construction time is up 0.3 months, compared to 1984 survey of builders.

Structure	Median construction time	Average construction time
Single-family house	5 months	4.4 months
Multifamily housing	5 months	5.4 months
Non-residential building	4 months	4.7 months

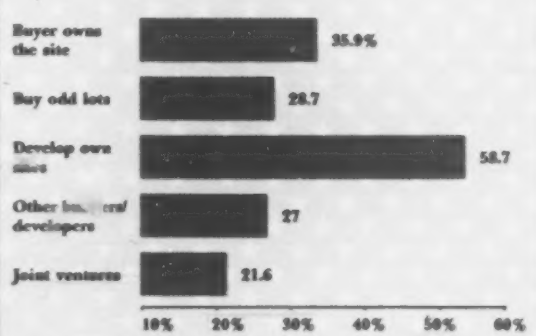
Builders Taking Less Profit

In 1984 survey, builders made average of 9% profit on a single-family house. That's down to 8.1% in 1988. Builders say it's more expensive to acquire and develop land now than 4 years ago.

Item	1988	1984
Raw land	19.3%	17%
Land improvements	12.6	7
Financing	4.4	6
Labor	17.4	18
Marketing/sales	4.3	4
Materials	24.1	29
Overhead	6.5	7
Profit	8.1	9
Advertising	1.2	2
Other	0.4	2

Median Lot Is 10,000 Square Feet...

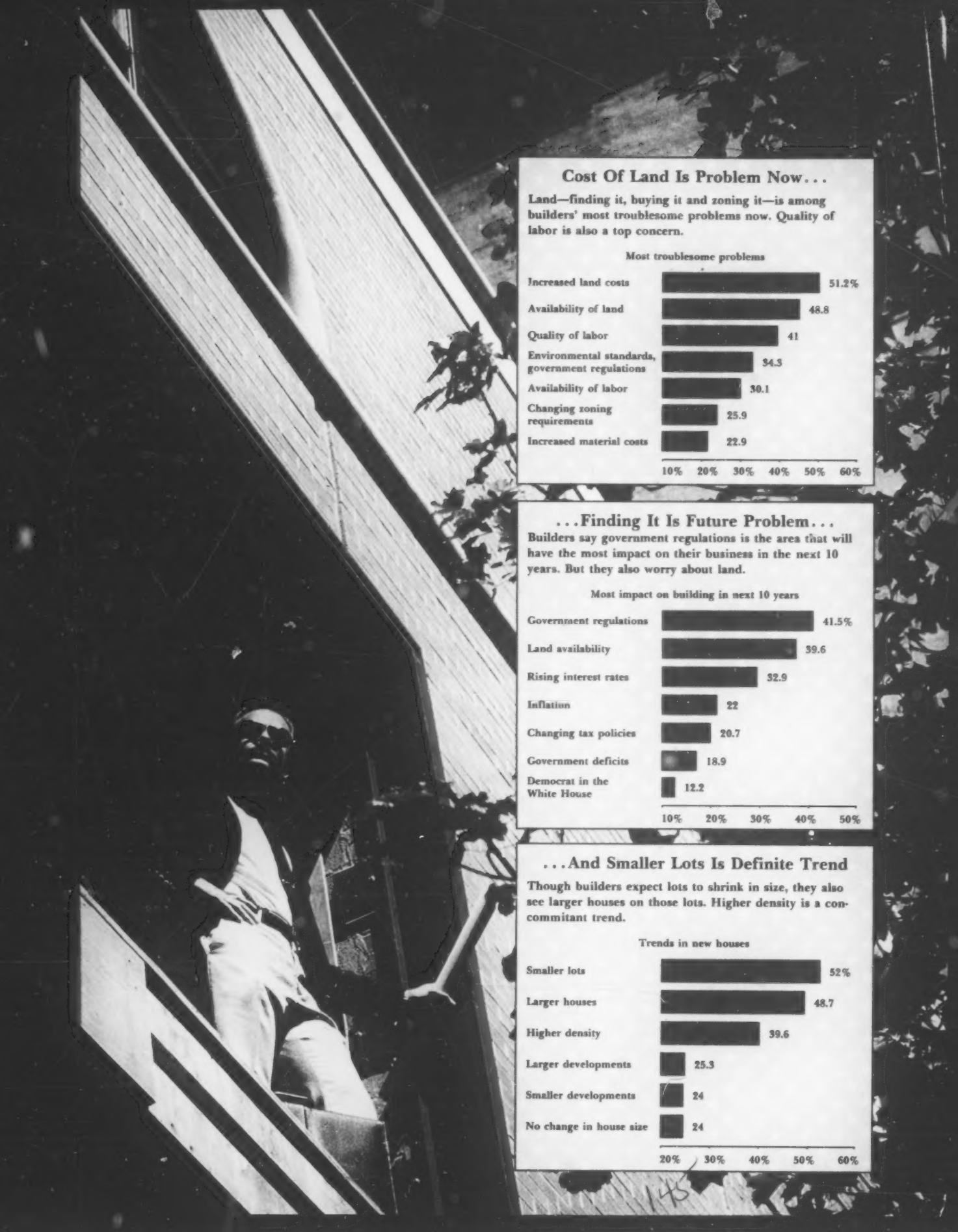
Average lot size is 21,858 square feet. Builders obtain the land on which they build from 5 sources—more than half develop their own sites.



...And Supports A 1950-Square-Foot House

That's the median size. Average is 2274 square feet—up 355 square feet, or 18% since last survey in 1984.

Housing	(Square feet) Median	Average
Single-family, detached	1950	2274
Single-family, attached	1500	1917
Condominium apartment	1148	1201
Rental apartment	875	936



Cost Of Land Is Problem Now...

Land—finding it, buying it and zoning it—is among builders' most troublesome problems now. Quality of labor is also a top concern.

Most troublesome problems

...Finding It Is Future Problem...

Builders say government regulations is the area that will have the most impact on their business in the next 10 years. But they also worry about land.

Most impact on building in next 10 years

...And Smaller Lots Is Definite Trend

Though builders expect lots to shrink in size, they also see larger houses on those lots. Higher density is a concommitant trend.

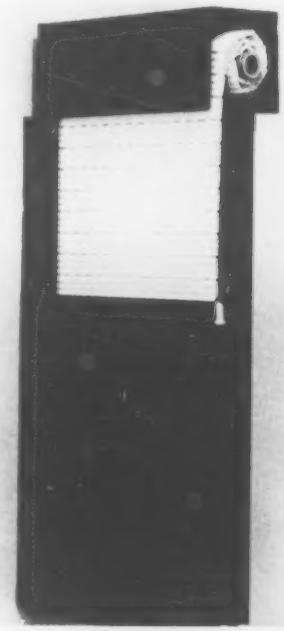
Trends in new houses

Correction

The July 1988 article about executive pay overstated the 1987 compensation of Robert C. Radice of the Radice Corp., Ft. Lauderdale, Fla. His salary in 1987 was $225,000. The incorrect information came from The Wyatt Co., the article's author. *Professional Builder* regrets the error. □

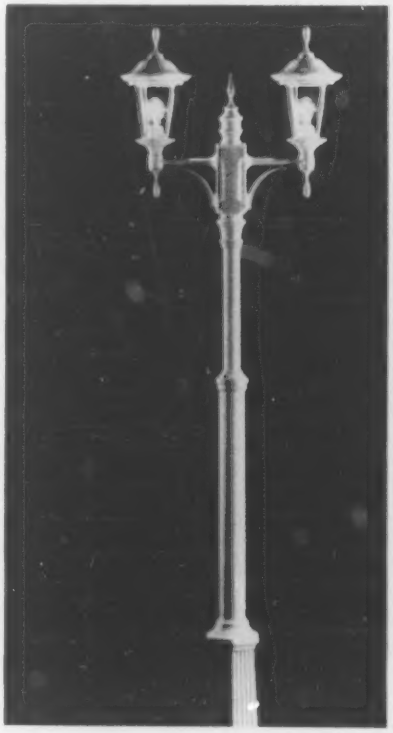
Insulating security shutters reduce R-values by 64% in the winter and 63% in the summer, manufacturer says. Installed in both residential and commercial buildings, the shutters form a solid barrier against break-ins. Shutters are good in Hurricane-prone areas, as they can withstand winds up to 140 miles per hour. *Prime Marketing Group.*

For information circle 385



Outdoor residential lighting fixture is made of cast aluminum. The lanterns are protected with a polyester-based coating, bonded to the base material to assure resistance to corrosion. Finishes are available in black, white and green. Many other models are available. *Noral.*

For information circle 378



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